



## STAFF REPORT

**DATE:** December 30, 2022

**TO:** The Honorable Mayor and City Council

**FROM:** Kyle Maurer

**SUBJECT:** Presentation of the Audited Financial Statements for Fiscal Year Ended June 30, 2022

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**RECOMMENDATION:**

N/A – Informational Only

**ISSUE BEFORE COUNCIL:**

Utah state law requires that all local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Generally Accepted Auditing Standards by a firm of licensed Certified Public Accountants. Pursuant to that requirement, we hereby issue the Annual Comprehensive Financial Report (ACFR) of Herriman City for the fiscal year ended June 30, 2022.

**BACKGROUND/SUMMARY:**

An annual financial audit is required of all municipalities with revenues or expenditures of \$1,000,000 or more. The audit must be submitted to the Office of the State Auditor by December 31, 2022. The independent auditor is responsible for reporting whether or not the governing body's financial statements are prepared in conformity with Generally Accepted Accounting Principles.

This report will be presented by McKay Hall, CPA, Audit Partner with the CPA firm HintonBurdick.

**DISCUSSION:**

The City's Finance Department has prepared an Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. This is considered a "best practice" and is above the Office of the State Auditor's requirements. This report is broken down into the following sections:

1. Introductory Section – This includes the Letter of Transmittal (the "introduction" to the ACFR), Certificate of Achievement for Excellence in Financial Reporting, organizational chart, and a list of elected/appointed officials and the City's leadership team.
2. Financial Section – This includes the Independent Auditor's Report (page 12), and Management's Discussion and Analysis, which is a narrative overview of the financial performance of the City during the fiscal year.
3. Basic Financial Statements – These are the traditional financial statements you would expect to see in a financial report. They include the government-wide statements (pages 33-34, which are statements presented on a full accrual basis, similar to how a for-profit business presents their financials), fund financial statements (pages 36-43), and the notes to the financial statements (pages 44-82). Fund financial statements focus on the short-term financial position of the City (including the amount of fund balance available in each fund), whereas the government-wide financial statements present a long-term focus. In addition, fund financial statements are broken down into "major" and "nonmajor" funds (each fund is categorized based on its relative size). Funds classified as "nonmajor" are aggregated into one column; the detail can be found on pages 95-96.
4. Required Supplementary Information – This is required information, including budget and actual schedules for the General Fund, Herriman City Safety Enforcement Area, and Herriman City Fire Service Area, along with required disclosures of the City's pensions held by the Utah Retirement Systems (URS).
5. Supplementary Information – This includes fund statements and schedules for the City's nonmajor funds, along with budget and actual information for the debt service fund, Herriman Towne Center CDA/SAA fund, and Capital Projects Fund.
6. Statistical Section – This section includes additional information to gain a greater understanding of the financial statements, note disclosures, and required supplementary information, and provides trends on the performance of the City.
7. Supplemental Reports – This includes the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditors' Report on Compliance and Report on Internal Control Over Compliance as Required by the *State Compliance Audit Guide*. At the time of submission, the City's Single Audit was not completed.

As part of the audit, the Independent Auditors issued a number of findings and recommendations. Below are the findings and my response (as the Finance Director):

1. Year-End Accounting and Financial Statement Controls – A few significant adjustments related to capital assets were required that were not initially identified by the City's internal controls. *City Response* – The previous Finance Director retired in the middle of the audit and had not completed recording fixed assets prior to the beginning of the audit fieldwork. In addition, after his retirement, it was discovered a number of corrections were needed. The City's current fixed asset system is unforgiving and requires the City to contact the software vendor if changes are needed to amounts recorded as fixed assets. The City's Finance Director has already purchased new fixed asset software and will be assigning the Accountant II to perform fixed asset duties. Therefore, the Finance Director will be able to

act as a final review to ensure all fixed assets are correctly and accurately recorded in the financial system.

2. Budgetary Compliance - A number of departments and funds were over budgeted expenditures for the fiscal year, including:
  - Public safety department - \$309,311
  - Herriman City Fire Service Area Fund - \$28,610
  - Debt Service Fund - \$51,299
  - Anthem CRA Fund - \$103,972
  - Storm Drain Impact Fee Fund - \$44,200
  - Street Light Fee Fund - \$289,407
  - Street Sign Fee Fund - \$30,140

*City Response* – The financial budget amendments for the year were completed before the current Finance Director started employment with the City. However, the Public Safety department was over budget due to a personnel budgeting error related to the mid-year salary increases and the Anthem CRA Fund was over budget due to the new Finance Director reconciling all Renewal Area commitments (which resulted in a few additional payments needing to be made). Moving forward, the new Finance Director will do budget amendments quarterly and work with City departments to ensure all necessary budget amendments are included.

The independent auditor also issues a "Other Items Communicated to Management" letter which outlines other items the auditors wish to communicate to management. These items are below, along with my response:

1. Capital Projects Deficit Fund Balance - The Capital Projects Fund ended the fiscal year with a deficit fund balance of \$6,469,722. *City Response* - This deficit fund balance is caused by the interfund loan with the Water Fund (Water Rights Fund) which financed the purchase of land. This loan must be repaid by June 30, 2025, and is expected to be paid with proceeds from the sale of land. The Finance Director will propose a transfer from the Water Rights Fund to the Capital Projects Fund to alleviate this issue.
2. Operating Bank Account Reconciliation – Bank reconciliations are being completed on a timely basis; however, there are outstanding checks dated back to January 2020. *City Response* – The Finance Department had already identified the stale check issue prior to the audit, and is following state statute (Unclaimed Property) to remit these funds to the State if they are not claimed by their owner.

#### **ALTERNATIVES:**

N/A

#### **FISCAL IMPACT:**

N/A

**ATTACHMENTS:**

Fiscal Year 2022 Annual Comprehensive Financial Report Auditor Findings, Recommendations, and Responses; Other Items Communicated to Management